ED 149 sub 2

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Our Ref: DR/SC

David

Re: ED 149 *Proposed Amendment to AASB 123 Borrowing Costs*

Deloitte Touche Tohmatsu Australia welcomes the opportunity to comment on the exposure draft ED 149 *Proposed Amendments to AASB 123 Borrowing Costs ('ED 149').*

The ED proposes to eliminate the option in AASB 123 *Borrowing Costs* ('AASB 123') of recognising borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. As such, financial reporting under Australian equivalents to International Financial Reporting Standards ('A-IFRS') will move closer to the recognition requirements of the comparable US standard, Statement of Financial Accounting Standards No. 34 *Capitalization of Interest Cost*.

You will be aware of our commitment to supporting the convergence efforts of the world's national accounting standard-setters and the International Accounting Standards Board ('IASB') with the objective of developing a set of high-quality global accounting standards which command wide acceptance and support. While we support this process, we have reservations about how the IASB continues to approach its 'short-term convergence' agenda. The IASB has, for several years, maintained that the convergence of accounting standards globally must be to the highest quality solution. Part of the IASB's strategy with respect to its short-term convergence agenda has been to identify what it determines to be the highest quality solution available from the current population of accounting standards and move to that standard. We support this approach in principle, but stress that the IASB must, in all cases demonstrate (not merely assert) that there is conclusive evidence that the approach chosen is the highest quality solution.

We acknowledge that a general objective of the IASB standard-setting agenda is the reduction of accounting alternatives in its standards. The ED could be seen in this light. However, we do not see any evidence in the ED that the IASB has demonstrated that to require capitalisation of interest is the higher quality solution from those available. The Board has not provided a proper analysis of the relative merits of the different approaches in IAS 23, nor has it provided evidence that users of financial statements prepared using IFRS are particularly troubled by the accounting alternatives in IAS 23, or (importantly) that they think that capitalising interest in all cases is preferable.

In our view, there is no indication in the ED's Basis for Conclusions that the IASB conducted an analysis of whether users are concerned about treating interest as an expense as opposed to including it as part of the acquisition cost of an asset, and (if it did) what the conclusions of that analysis were. Indeed, in BC 3 the proposals seem to be justified primarily on the basis that FAS 34 and IAS 23 are equally poor standards. We do not think that such a justification is in the spirit of convergence and see no evidence to support the IASB's conclusion that requiring capitalisation is the highest quality answer.

In producing this particular exposure draft, as with other convergence agenda proposals recently, particular emphasis has, in our view correctly, been placed on convergence with the requirements in the US. Whilst we accept that meaningful convergence does not require the converged standards to be identical word-for-word, but rather achieve comparability on major principles of recognition and measurement, we are concerned that the proposals achieve only the appearance of convergence with US GAAP. They do not resolve a number of major issues of principle, and significant differences will remain, for example with respect to the definition of a qualifying asset and measurement of the amounts of interest that qualify for recognition as part of the qualifying asset. These differences could lead to materially different amounts being reported in financial statements—and they will need to be addressed subsequently as the convergence process moves forward. The IASB's constituents would be served better by addressing the issues surrounding the capitalisation of interest once only.

Although the proposals achieve some measure of convergence with US GAAP, we question whether this convergence is necessary, given that IAS 23 already contains the alternative to capitalising costs. In addition, we think that the IASB should have provided a justification for extending interest capitalisation to the far larger population of IFRS preparers that are not SEC registrants. It is a routine feature of the Board's current process that the Board presents some form of cost benefit assessment. However, the Board's unsubstantiated assertion that it 'does not expect capitalising borrowing costs to impose an unduly burdensome cost on entities' and that the benefits of 'convergence in principle with US GAAP will exceed any additional costs' (BC10) is not a proper justification, but rather is a statement of one of the Board's current working assumptions. The Board has provided no evidence or analysis in the ED against which we can test this assertion.

We do not support the proposals in the ED for the fundamental reason that we do not think that the IASB has made its case for change and supported that conclusion with appropriate evidence and analysis. Consequently, we have no basis on which to assess whether the IASB came to the appropriate conclusions with respect to its proposals.

Due to the later IASB submission deadline for the discussion paper, the global firm of Deloitte Touche Tohmatsu has not finalised its views in relation to the matters raised. Therefore, the views presented in this document should be read in this context and may not necessarily represent the view of the global firm of Deloitte.

If you have any questions concerning our comments, please contact Darryn Rundell on (03) 9208 7916.

Yours sincerely

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